

Research

Finland: slow growth likely to continue

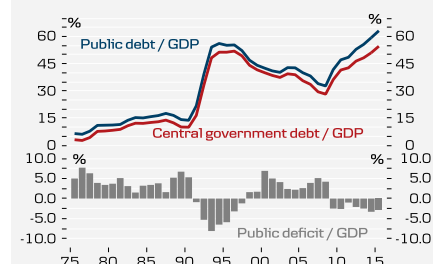
- We now expect GDP to grow 0.7% in 2016 mainly on the back of exports and construction. Domestic demand suffers from austere fiscal policy and slow improvement in purchasing power. We have revised our forecast slightly higher on the public debt-to-GDP ratio, which is expected to reach 67.4% by the end of 2017.
- Finnish GDP rose 0.5% in 2015, according to the first full-year national accounts. Growth exceeded our latest forecast due to stronger private consumption, rising services exports and recovering manufacturing investment in Q4. The figure might be revised later, but we assume that Finland finally rose from a three-year long decline.
- The negative impact of Russia on exports is fading away in 2016 and we continue to expect modest growth in exports to the western markets. Household purchasing power has been boosted by a fall in consumer prices. Inflation was negative in January-February but full-year inflation is forecast to rise to 0.4% in 2016. The unemployment rate is forecast to rise to 9.6% and a very moderate wage agreement is keeping purchasing power nearly flat in 2016-17. The labour market atmosphere is tense at the moment, while talks to reach a competitiveness package with lower labour costs continue. The package might be finally agreed in late May.
- Investments continued to fall in 2015 but we expect 2.5% growth in 2016, mainly due to construction. Investment in machinery, equipment and transport equipment may also bottom out but R&D expenditure might fall further.
- Finland breached the 60% debt-to-GDP limit in 2015 (63.1%) but the 3% deficit limit was not breached (2.8%), according to the first estimate. The EU commission has reprimanded the Finnish government but sees Finland still complying with the Stability and Growth Pact. We forecast debt-to-GDP to reach 67.4% in 2017. Sovereign credit ratings are at stake if the speed of structural reforms slows down, the ambition to cut deficit falls or GDP growth disappoints. Standard & Poor's maintained the 'AA+' with negative outlook on Friday 18 March. The last 'Aaa' rating from Moody's is due to be reviewed on 3 June 2016 and a downgrade is fairly likely, in our view, unless economic performance improves before the summer.

Finnish exports far behind global growth



Source: Macrobond Financial

Debt-to-GDP to exceed 60% in 2016



Source: Macrobond Financial

Changes relative to our latest forecast

Finland	Previous forecast		Previous forecast	
	2016E	2017E	2016E	2017E
GDP, %	0.7	1.1	0.6	1.1
Unemployment rate, %	9.6	9.4	9.8	9.5
Inflation, %	0.4	1.0	1.0	1.2
Earnings, %	1.1	0.6	1.1	0.8
Housing prices, %	0.5	1.0	0.5	1.0
CA, % of GDP	0.2	0.5	0.2	0.5
Public debt, % of GDP	65.8	67.4	65.0	67.0

Source: Danske Bank Markets

Chief Economist

Pasi Kuoppamäki
Pasi.kuoppamaki@danskebank.fi
+358 10 5467715

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